

BUDGET

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April 14, 2015

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

FISCAL YEAR 2015-16 RECOMMENDED COUNTY BUDGET (3-VOTES)

The 2015-16 Recommended Budget proposes new funding and positions to address critical issues that the Board is working to resolve. This includes improvements to the criminal justice system and jail facilities, reforms in the child welfare system, and improvements in patient care as the implementation of the Affordable Care Act (ACA) continues. The budget also includes recommendations to allocate funding to strengthen the County's financial reserves and continues our investment in the construction and refurbishment of community facilities, including libraries, parks and beaches.

This Board letter recommends that \$99.2 million new ongoing funding be added to the budget to address mental health needs in County jails (\$23.5 million), curb excess use of force at County jails (\$64.5 million), continue the creation of a diversion - inmate treatment program (\$10.0 million) and address Americans with Disabilities Act compliance in County jails (\$1.2 million). We also recommend that 542.0 budgeted positions be added to the Department of Children and Family Services' budget to reduce caseload and improve child safety. As the Health Department continues with the implementation of the ACA, we recommend the addition of 351.0 positions that will provide nursing services and 30.0 positions for the Community Health Worker initiative.

"To Enrich Lives Through Effective And Caring Service"

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The Fiscal Year (FY) 2015-16 County of Los Angeles Recommended Budget total of \$26.923 billion reflects a decrease of \$218 million in total requirements when compared to the 2014-15 Final Adopted Budget. General County funds, including the General Fund and Hospital Enterprise Funds (\$21.119 billion) reflect a net increase of \$171 million. Special District/Special Funds reflect a decrease of \$389 million.

TOTAL REQUIREMENTS – ALL FUNDS – 2015-16					
(Dollars in Billions)					
Fund	2014-15 Recommended	2014-15 Final Adopted Budget	2015-16 Recommended	Change	% Change
Total General County	\$20.271	\$20.948	\$21.119	\$0.171	0.8%
Special Districts/Special Funds	5.783	6.193	5.804	(0.389)	-6.3%
Total Budget	\$26.054	\$27.141	\$26.923	\$(0.218)	-0.8%
Budgeted Positions	105,023	105,503	106,807	1,304	1.2%

BUDGET ECONOMIC OUTLOOK

The current economic outlook for the nation and California shows positive growth for the remainder of 2015 and is expected to hold steady in 2016. While the housing market has seen rapid gains in prices as well as a surging demand in recent years, growth has slowed and has begun to level off in the coming year. The labor market continues to improve, with the County expecting to surpass its pre-recession peak for the number of jobs during 2015-16. Furthermore, the unemployment rate is expected to continue its trend downward into 2016.

The economic outlook, although positive, continues to face challenges and uncertainties. Current economic indicators show steady domestic growth. However, the far-reaching effects of instability in global markets may potentially hinder the sustainability of the national and local recovery. Additionally, the overall impact from the recent significant decline in oil prices remains unclear. While declining prices are expected to result in higher consumer and business spending, government entities that rely on oil-related revenues, such as the gasoline tax, sales and use taxes, and property taxes collected by the County, face reduced funding sources. Nevertheless, the economic recovery is expected to continue, and we will continue to monitor economic indicators and analyze their implications throughout the budget process.

Our office, in consultation with the Assessor's office, is forecasting a 5.05 percent increase to the 2015 tax assessment roll. Since this forecast is preliminary and the Assessor is scheduled to issue its official forecast in May 2015, and release the final roll in July 2015, our office will continue to work with the Assessor's office to update our property tax projections accordingly. We are also forecasting a 5.0 percent increase in statewide sales tax growth.

BUDGET OVERVIEW

The Board of Supervisors' commitment to adhere to the County's long-standing conservative budget practices allowed the County to weather the Great Recession without major service reductions, layoffs, or furloughs. As a result of the recession, the County employed a strategy that, along with other measures (i.e. curtailments and efficiencies), used one-time budget solutions as a bridge until the economy strengthened. The use of one-time funding solutions to balance the budget ended in 2013-14, and for the third year in a row, we are recommending a budget with no budget gap, meaning that the ongoing costs are funded entirely with ongoing revenues.

At this initial stage of the annual budget process, we find that the amount of estimated revenue growth, coupled with unavoidable cost increases and the need to fund critical programs will, once again, challenge us to maintain the balance between fiscal sustainability and service delivery. In a departure from many of the County's budget proposals over the past five years, which focused on closing budget gaps, recovery and budget stabilization, the 2015-16 Recommended Budget provides funding to address many of the critical programmatic issues the Board is working to resolve.

Program Changes

Outlined below are some of the significant program changes that are financed with locally generated revenues.

- **County Jails Mental Health Needs** – Adds \$23.5 million in ongoing funding to the Provisional Financing Uses (PFU) budget unit. This amount, along with \$10.0 million in ongoing funding included in the 2014-15 Final Adopted Budget, brings the total ongoing amount up to \$33.5 million for mental health issues at County jails. On June 4, 2014, the Department of Justice (DOJ) issued a report outlining fifty-three (53) recommendations that pertain to mental health services and suicide prevention issues in the County jail system. This Board letter recommends that \$45.3 million be set aside in the PFU budget unit to address the DOJ recommendations pending negotiations with DOJ and Board approval.

- **County Jails Excessive Use of Force** – Reflects \$64.5 million in ongoing funding and \$10.5 million in one-time funding, for a total of \$75.0 million to be set aside in the PFU budget unit to address allegations of excessive use of force in the jails. The Chief Executive Office will continue to work with the Sheriff's Department to determine the level of resources that are required and present final recommendations to the Board in June.
- **Comprehensive Diversion – Inmate Treatment Program** – Supplements \$20.0 million in one-time funding in the PFU budget unit with \$10.0 million of ongoing funding for this program. This funding is set aside in anticipation of the District Attorney's report on a Comprehensive Criminal Justice Mental Health plan. Although General Fund dollars are being set aside, our office continues to explore other outside revenue sources to fund this program.
- **Animal Care and Control** – Sets aside a total of \$3.6 million in funding (\$2.7 million ongoing and \$0.9 million in one-time funding) in the PFU budget unit for the Palmdale Animal Care Center, which is scheduled to open in late Spring of 2016. This amount includes both one-time start-up costs and the day-to-day operating costs for the new Care Center.
- **Fire-Lifeguards** – Restores \$1.5 million in funding that was curtailed from the Fire-Lifeguard budget during the Great Recession. This funding is being set aside in the PFU budget unit and will be moved to the Fire-Lifeguard budget unit in a later budget phase.
- **In-Home Supportive Services (IHSS) Program** – Increases funding for the IHSS program by \$5.5 million based upon State law that requires counties to adjust the maintenance of effort base amount by an annual 3.5 percent inflation factor.
- **General Relief (GR) Caseload** – Reflects a \$21.4 million reduction in the Department of Public Social Services' Assistance budget unit due to an expected 8.7 percent decline in the GR caseload.
- **Unincorporated Area Stormwater Program** – Sets aside \$6.5 million in the PFU budget unit, along with \$2.3 million already included in the Capital Projects/Refurbishments budget, to help comply with the 2012 adopted National Pollutant Discharge Elimination System (NPDES) permit in the unincorporated areas.

- **Budget and Fiscal Policies** – In accordance with County budget and fiscal policies, we are recommending that \$11.6 million be assigned to Appropriation for Contingencies and \$5.0 million be added to the County Extraordinary Maintenance budget unit to help address deferred maintenance needs throughout the County.

In addition, we are recommending important program changes that are financed with outside revenues sources, primarily with State and federal funding.

- **Children and Family Services** – Reflects appropriation and revenue increases of \$66.9 million, and the addition of 542.0 budgeted positions, to further reduce caseloads and improve child safety. The new budgeted positions will be allocated to the following areas:
 - **Child Welfare Services** – Adds 444.0 line-operational positions, including 250.0 Children’s Social Workers (CSWs), 70.0 Supervising CSWs, and 124.0 line staff to support these additional items to reduce caseloads;
 - **Specialized Programs** – Increases 58.0 positions, including 16.0 CSWs, 10.0 Supervising CSWs, and 32.0 line staff to provide specialized services that support child safety;
 - **Foster Youth Programs** – Adds 22.0 positions to develop an employment training program for foster youth; and
 - **Administrative Support** – Augments 18.0 positions for critically needed administrative support.
- **Investment in Mental Health Wellness Act (SB 82)** – Reflects a \$111.5 million increase in appropriation for the Department of Mental Health (DMH) to implement SB 82, the Investment in Mental Health Wellness Act, which is fully funded with State revenue. SB 82 expands urgent care centers, crisis residential treatment, and mobile crisis support teams. In addition, it adds four types of teams providing mental health triage and field-based crisis response services. This adjustment adds 88.0 budgeted positions.
- **Mental Health Services Act (MHSA)** - Reflects an increase in appropriation of \$7.4 million for the DMH, fully offset by MHSA funding, for continued implementation of MHSA plans approved by the Board on July 14, 2014, including the Assisted Outpatient Treatment Program, also known as “Laura’s Law”, approved by the Board on November 25, 2014. This recommendation adds 30.0 budgeted positions.

Health Services

The ACA was implemented on January 1, 2014 and the Department of Health Services continues to refine its analysis of the impact. The Department is making good progress on an integrated care delivery model to help it succeed under the ACA. The Department's 2015-16 Recommended Budget includes a revenue placeholder of \$81.3 million while the Department continues to develop its revenue projections related to the ACA, the upcoming replacement 1115 Waiver, and the reconciliation of the Assembly Bill (AB) 85 realignment revenue redirection.

The Recommended Budget is fully funded with available resources and also reflects the use of \$184.9 million in estimated obligated fund balance to be transferred to the four hospital enterprise funds for ongoing health care costs. Highlighted below are the significant recommended changes for Health Services:

- A net increase of 351.0 positions and \$22.3 million in related funding for the second phase of the standardized nurse staffing plan to comply with State regulations;
- An increase of 30.0 positions and \$1.7 million in related funding for the second phase of the Community Health Worker initiative to facilitate medical care for high-risk, high-need patients;
- An increase of 27.0 positions and \$3.2 million in related funding to establish additional primary care medical homes;
- An increase of 14.0 positions and \$2.0 million in related funding to support the Medical Hubs expansion; and
- A net increase of \$42.3 million to annualize funding for the Department's support of patient care for the new Martin Luther King, Jr. Community Hospital, which is anticipated to open in May 2015.

CAPITAL PROJECTS/EXTRAORDINARY MAINTENANCE PROGRAMS

Capital Projects

The 2015-16 Recommended Capital Projects/Refurbishments appropriates \$726.3 million for continued development, design, and construction of projects that address high-priority health, public safety, recreation, and infrastructure needs.

The 2015-16 Recommended Budget for Capital Projects/Refurbishments reflects a decrease of \$109.8 million from the 2014-15 Final Adopt Budget, due to the completion of 42 projects in 2014-15. In addition, several bond-financed projects, which are not accounted for in the Capital Projects/Refurbishments Budget once bonds have been issued, were also completed, including the Hall of Justice Renovation Project and the Manhattan Beach Library Project.

The 2015-16 Recommended Budget allocates \$44.2 million for soil and groundwater investigation, monitoring, and remediation projects at County-owned sites in the cities of Downey, Carson, and throughout the unincorporated area.

The County continues to address facility needs resulting from the enactment of the State's Public Safety Realignment Act (AB 109), which resulted in an influx of new inmates into County jails. The 2015-16 Recommended Budget appropriates \$162.7 million for facility improvements to various jail facilities, including the refurbishment of the Mira Loma Detention Center.

In addition to these environmental and public protection projects, the County continues to refurbish and construct new libraries, parks, and beach facilities, as well as address its own governmental needs through the construction of new facilities.

Extraordinary Maintenance

The County continues to invest in deferred maintenance to meet performance requirements and expectations for its facilities. The 2015-16 Recommended Budget earmarks \$170.8 million for high-priority repairs, maintenance and accessibility modification needs at County facilities, including juvenile halls, animal shelters, County beaches, parks, and for various roof repairs.

In 2015-16, the second phase of building condition assessments of 24.1 million square feet of approximately 1,200 County-owned and/or County-maintained facilities and the development of prioritized capital plans to address deferred maintenance will continue. It is anticipated that the condition of approximately nine (9) million square feet of buildings will be assessed during the fiscal year.

POTENTIAL STATE/FEDERAL BUDGET IMPACTS

State Budget

On January 9, 2015, Governor Jerry Brown released his FY 2015-16 Proposed Budget, which includes \$113.3 billion in State General Fund expenditures. The proposed budget assumes \$3.5 billion in additional State revenues above the amount projected in the FY 2014-15 State Budget Act. Governor Brown indicated that while the economy continues to improve, maintaining a balanced State Budget for the long-term will be an ongoing challenge, and it will require fiscal restraint.

The Governor's proposed budget contains no reductions to County-administered programs, and it includes the repayment of \$533 million statewide in pre-2004 deferred State mandate payments owed to local governments, with a County estimated repayment of \$88 million. The Governor's plan also reflects an increase in the base allocation for the AB 109/2011 Public Safety Realignment from \$934.1 million to \$1.1 billion statewide, and proposes to redirect an estimated \$698.2 million statewide from counties to the State to reflect potential county indigent health care savings due to the implementation of the Medi-Cal expansion under the federal ACA. DHS estimates the amount of 1991 Health Realignment funding to be redirected from the County to the State in 2015-16 at \$100.0 million.

The Legislature is currently conducting Budget Subcommittee hearings on the Governor's Proposed Budget. However, most actions on the State Budget will be held pending the release of the Governor's May Budget Revision that will contain updated revenue estimates and budget allocations.

Federal Budget

The overall federal budget outlook for the County in 2015-16 is positive largely because the County's revenue for Medicaid, which is by far the County's largest source of federal revenue, will continue to grow due to the ACA's Medicaid expansions. The County also will receive increased revenue for Title IV-E Foster Care, which is its third largest federal revenue source, under the terms and conditions of California's Title IV-E waiver, which provides participating counties with steadily increasing annual capped allocations. Moreover, the County's federal revenue will be stable through 2015-16 under the Temporary Assistance for Needy Families Program (CalWORKs in California), Child Support Enforcement, the Supplemental Nutrition Assistance Program (CalFresh in California), and federal discretionary programs through which the County receives its remaining federal revenue.

It is expected that the new Republican-controlled Congress will seek to reduce overall federal spending, including deep cuts in Medicaid, which is the third largest federal program after Social Security and Medicaid. Republicans, however, lack the two-thirds majority in both houses needed to override expected presidential vetoes of legislation that would significantly reduce Medicaid spending, such as by repealing the ACA. Nevertheless, the risk of cuts in Medicaid and other federal programs through which the County receives federal revenue is greater than in recent years when Democrats controlled one or both houses of Congress. However, even if federal spending cuts are enacted, their fiscal impacts are unlikely to be felt until after the end of 2015-16 at the earliest.

Long-Term Budgetary Issues

As we look forward, we recognize that many budgetary hurdles lie ahead and will require significant County spending. Some of the major challenges that will require a multi-year funding approach include replenishing the County's Rainy Day Fund, addressing deferred maintenance needs, investing in capital improvements, and establishing a fleet vehicle replacement program. Although, the County has taken important steps to address retiree healthcare benefits, serious consideration needs to be given to developing and implementing a plan to prefund this benefit.

BUDGET TIMETABLE

Below is the schedule for budget hearings and deliberations.

Board Action	Approval Date
Adopt Recommended Budget; Order Printing, Notice and Distribution; and Schedule Public Hearings	April 14, 2015
Commence Public Budget Hearings	May 13, 2015
Commence Final Budget Deliberations and Adopt Budget Upon Conclusion	June 22, 2015

Prior to deliberations on the FY 2015-16 Adopted Budget, we will file reports on:

- May revisions to the Governor's Budget and updates on other 2015-16 State and federal budget legislation and the impact on the County's Recommended Budget;

- Final revisions reflecting the latest estimates of requirements and available funds;
- Issues raised in public hearings or written testimony;
- Specific matters with potential fiscal impact; and
- Issues as instructed by the Board.

APPROVAL OF RECOMMENDED BUDGET

The matter before the Board is the adoption of the Recommended Budget.

- The documents must be available for consideration by the public at least 10 days prior to the commencement of public budget hearings.
- Adjustments to the budget, including revisions to reflect the Board's funding priorities and State and federal budget actions, can be made during budget deliberations, prior to adoption of the Budget.
- Pursuant to State law (the County Budget Act), the Board may make changes to the Recommended Budget with a simple majority (3 votes) until adoption of the Budget, if changes are based on the permanent record developed during public hearings (e.g., Recommended Budget, budget requests and all written and oral input by Supervisors, County staff and the public).
- Changes not based on the "permanent record" require 4/5 vote.

THEREFORE, IT IS RECOMMENDED THAT THE BOARD:

Order such revisions, additions, and changes to the Chief Executive Officer's budget recommendations as deemed necessary, and approve the revised figures as the Recommended Budget for 2015-16; order the publication of the necessary notices; and set May 13, 2015, as the date that public budget hearings will begin.

Respectfully submitted,


SACHI A. HAMAI

Interim Chief Executive Officer